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SUBJEC*: JOHN L. MOORE'S COURTESY CALL ON MR. CHO CHOONG HOON, CHAIRMAN OF KOREAN AIRLINES (KAL)
1. SUMMARY: IN MOORE'S CALL ON KAL, KAL CHAIRMAN *CHO MONOPOLIZED CONVERSATION WITH A DISCOURSE ON HOW RISING FUEL COSTS AND FALLING SEOUL-U.S. AIRFARES ARE THREATENING KAL'S FINANCIAL WELL-BEING. KAL IS STUDYING A SHARP REDUCTION IN SEOUL-U.S. FREQUENCIES. CHO SEEMS CERTAIN THAT BRANIFF IS LOSING EVEN MORE OONEY THAN KAL ON ITS SEOUL-U.S ROUTES. WE DO NOT KNOW WHETHER CHO'S REMARKS TO MOORE WERE TO SIGNAL KAL INTENT TO REOPEN THE ISSUE OF PREDATORY COMPETITION UNDER OUR CIVAIR AGREEMENT, OR TO EXPLAIN A BIG PROBLEM TO AN IMPORTANT CREDITOR. END SUMMARY.
2. AFTER DISCUSSION OF KAL'S DOLLARS 500-MILLION SYNDICATED LOAN (ARRANGED DURING FALL OF 1979) AND OTHER INCIDENTAL MATTERS, MR. CHO EMBARKED ON A LONG DISCOURSE ON KAL'S POOR FINANCIAL PERFORMANCE DURING 1980, AND ITS BLEAK FUTURG PROSPECTS.

DEPARTMENT OF STATE A/CDC/MR
REVIEWED BY HSN DATE 5/26/82
RDS☐or XDS☐EXT. DATE
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3. HE MADE THE FOLLOWING POINTS:
(A) THE CONFLUENCE OF FARE-CUTTING (ALLEGED BY MR. CHO TO HAVE BEEN INSTIGATED BY U.S. FLAG CARRIERS) AND SOARING FUEL COSTS, HAS BADLY DAMAGED KAL'S FINANCIAL SITUATION.
(B) KAL'S DOLLARS 10-MILLION PROFIT IN 1979 (LARGELY FROM MIDDLE EAST ROUTES) WAS EATEN-UP BY A DOLLARS 14-MILLION LOSS ON TRANSPACIFIC ROUTES DURING FIRST QUARTER 1980. KAL IS CONSIDERING A DRASTIC REDUCTION IN FREQUENCIES, WHICH WILL BE IMPLEMENTED IN MID-1980.
(C) CONSIDERING KAL'S MUCH LOWER "SOCIAL OVERHEAD" (20 PERCENT FOR KAL VS. 40-50 PERCENT FOR BRANIFF) MR. CHO DOESN'T KNOW HOW U.S. CARRIERS ARE ABLE TO WITHSTAND WHAT HE FEELS SURE ARE ENORMOUS LOSSES ON U.S.-KOREA ROUTES.
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(E) ON TP ROUTES, REVENUE UNIT PRESENTLY IS DOLLARS 250, AND BREAKEVEN IS DOLLARS 490 (70-80 PERCENT LOAD FACTOR).

(E) FUEL COSTS ARE NOW 30 PERCENT OF OPERATING COSTS VS. 13 PERCENT IN 1979.

(F) WINDING UP, MR. CHO'S REMARKS CONTAINED WORDS LIKE "SURVIVAL" AND "BANKRUPTCY." HE EXTOLLED THE VIRTUES OF "FAIR AND FRIENDLY COMPETITION." MR. CHO'S LAST REMARK WAS "WITH OUR COSTS INCREASING AND OUR REVENUES DECLINING, HOW CAN WE REPAY OUR LOANS?"

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4. ECON COUNSELOR COMMENTED THAT BILATERAL US/KOREAN CIVAIR UNDERSTANDING WAS INTENDED TO MAXIMIZE COMPETITION AMONG CARRIERS. WHERE ISSUES EXISTED THAT WERE APPROPRIATE FOR GOVERNMENT-TO-GOVERNMENT DISCUSSION, NUMEROUS CHANNELS EXISTED, AND WE WERE ALWAYS PREPARED TO LISTEN. COUNSELOR NOTED THAT QUESTIONS OF PREDATORY COMPETITION HAD IN FACT BEEN DISCUSSED IN BILATERAL MEETINGS.

5. COMMENT: PROBLEM CHC HAS IDENTIFIED OF RISING FUEL COSTS IS A VALID ONE, AFFECTING ALL TRANSPACIFIC FLIGHTS. NORTHWEST HAS ADVISED US THAT THEY TOO PLAN TO REDUCE FREQUENCIES. WE HERE CANNOT ADEQUATELY ASSESS BRANIFF'S COST/PRICE POSITION, OR WHETHER THERE IS MERIT TO CHO'S CONTENTION THAT THEY ARE OPERATING WAY BELOW COST. WE ARE ALSO UNDER THE IMPZESSION THAT A SMALLER LOAD FACTOR THAN 70 PERCENT IS NORMAL FOR MOST AIRLINES TO MEET COSTS AND ESTABLISH PROFITABILITY. MOREOVER KAL'S ONE WAY TOURIST FARE SEOUL-L.A. IS DOLLARS 579 AND SEO*L-NEW YORK DOLLARS 809 AND WE ARE AT A LOSS WHERE DOLLARS 250 NOTED PARA D COMES FROM. NOR DO WE KNOW WHETHER CHO'S COMPLAINT TO MOORE PRESAGES FURTHER OFFICIAL DISCUSSION OF THE PREDATORY COMPETITION ISSUE, OR WHETHER HE WAS SIMPLY TAKING THE OCCASION TO EXPLAIN HIS COMPANY'S FINANCIAL POSITION TO AN IMPORTANT CREDITOR.

6. FOREGOING DRAFTED AFTER CHAIRMAN MOORE'S DEPARTURE, AND HAS NOT BEEN CLEARED BY HIM. GLEYSTEEN

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